

THE EUROPE ARAB BANK PLC PENSION SCHEME (“the Scheme”)

ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 31 DECEMBER 2019 PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES (ADMINISTRATION) REGULATIONS 1996, AS AMENDED (THE “REGULATIONS”)

1. DEFAULT ARRANGEMENT - Reg 23(1)(a)

A copy of the Statement of Investment Principles - Defined Contribution Section, prepared in accordance with Regulation 2A of the Occupational Pensions Schemes (Investment) Regulations 2005 is attached.

The Trustees have appointed Aon Solutions UK Limited to provide them with investment advice, and a comprehensive investment strategy review was last completed in July 2017. This took into account the Scheme's membership profile and the needs of Scheme members, as well as consideration of expected member outcomes at retirement and associated risks.

As a result of the review, significant strategy changes were implemented during July 2017, with the aim of making sure that the design is as contemporary as is possible and that the default arrangement is designed in the members' best interests post the Freedom and Choice reforms allowing members, from April 2015, much more flexibility over how they take their benefits. The relevant scheme documentation has been updated to accurately reflect the latest strategy. The investment performance of the Scheme's funds continues to be regularly monitored by the Trustees, taking advice from Aon Solutions UK Limited as appropriate.

To help prepare for the investment review, the Trustees sought the views of the scheme membership by issuing a member questionnaire and then subsequently issued a warm-up letter to advise them of the proposed investment strategy changes and how this would impact them. In addition, member presentations and Q&A sessions were held in May 2017.

Summary of the changes to the investment strategy in 2017:

- The Trustees changed the default strategy to a new lifestyle option called the Flexible Income Lifestyle. The aim and objective of the new lifestyle option is to be more suitable for members who wish to use flexible drawdown to take their retirement savings in the form of regular payments or a series of ad-hoc lump sums;
- Introduced an additional lifestyle option called the Annuity Lifestyle, which aims to be suitable for members who wish to purchase an annuity at retirement. The previous annuity lifestyle was closed as part of the strategy changes.
- Updated the existing Self-Select fund range, including introducing a number of completely new options, providing members with greater flexibility to meet their needs.

Detailed reporting has been agreed with Aon to closely monitor that fund performance is consistent with the aim and objective of the default fund.

The Scheme provides a range of high quality investment funds which are aligned with the new flexibilities available to members at retirement.

The next default investment strategy review is due to take place in 2020.

Flexible Income Lifestyle Option – New Default arrangement

In 2017, the default fund was updated to the Flexible Income Lifestyle option. This works on the principle that at retirement members will use flexible income “drawdown” to draw income at retirement. This could be through a maximum of five cash lump sum withdrawals while remaining invested in the Scheme, or by transferring their pension savings to a specialist income drawdown arrangement outside of the Scheme to give even more flexibility.

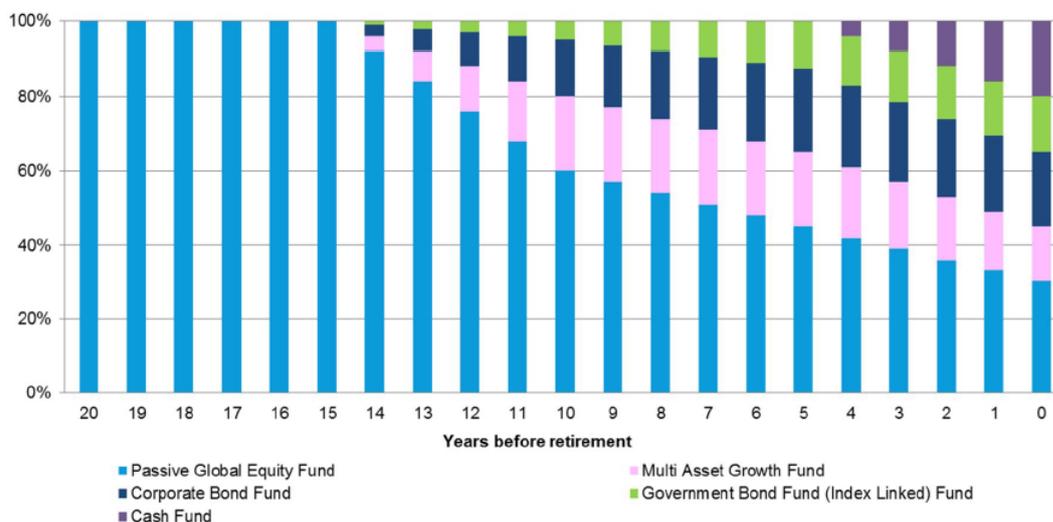
Each withdrawal will be subject to a 25% tax-free element (under current laws).

How it works

Up until 15 years before a member’s retirement date, their savings are invested in funds which aim to deliver long-term growth (i.e. equities). After that time, their savings are gradually moved into a mix of bonds and multi asset growth funds, with a portion remaining in equities.

Once a member reaches their retirement date, their savings are invested in a broad mix of higher and lower risk funds. This is to try and achieve a balance of growth versus security.

The chart below illustrates how funds will be invested in the Flexible Income Lifestyle option:



It is recognised that some members will wish to pursue annuity purchase at retirement and so an Annuity Lifestyle Option is also available, as well as the option to Self-Select their investment options. However, unless a member specifically requests to opt-in to the Annuity Lifestyle or Self Select options, their contributions will be invested in line with the default arrangement (the ‘Flexible Income Lifestyle Option’).

The Trustees carried out an Annual Investment Review with the assistance of Aon in November 2019. This concluded that no changes were required to any of the available fund choices or the current

default options. The Trustees will continue to monitor the performance of all funds and take relevant investment advice where necessary from Aon, and the triennial review of the investment strategy is due in 2020.

2. CORE FINANCIAL TRANSACTIONS - Reg 23(1)(b)

The Trustees have a specific duty to ensure that core financial transactions (including the investment of contributions, transfers of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately.

These transactions continue to be undertaken on the Trustees' behalf by the Scheme Administrator, JLT Employee Benefits (a trading name of JLT Benefit Solutions Limited, and JLT is now part of Mercer) and its investment manager, Legal & General Assurance (Pensions Management) Limited. The Trustees have reviewed the processes and controls implemented by these organisations, and maintain the view that they are suitably designed to achieve these objectives. The Trustees have also agreed service levels, and reporting of performance against those service levels via regular administration reports, and during the year ending 31 December 2019 the performance levels were 91.25% when compared with the agreed levels of service. The Trustees also regularly review the methods and efficiency of the Scheme's Administrators and challenge them as necessary. In addition, JLT Employee Benefits has commissioned KPMG to independently test their internal controls and procedures to ensure that they meet industry standards, and a copy of the KPMG report has been reviewed by the Trustees.

For the year to 31 December 2019, the Trustees consider that the requirements for processing core financial transactions specified in the Regulations have been met.

3. CHARGES AND TRANSACTION COSTS - Reg 23(1)(c)

The Trustees regularly monitor and explain the fund charges paid by members. These charges comprise:

- explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund managers as part of the Total Expense Ratio (TER); and
- implicit charges, such as the transaction costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.

There are other non-investment related costs which are not charged to members, such as administration, communication and adviser costs.

Charges

As mentioned above, investment strategy changes were implemented in 2017. The following table sets out the current fund charges:

Scheme fund name	Underlying funds	Total Expense Ratio p.a.	Included in default arrangement
Passive Global Equity Fund	LGIM World Equity Index LGIM RAFI 3000 Equity Index LGIM Minimum Volatility Index LGIM World Emerging Markets Equity Index	0.28%	✓
Passive UK Equity Fund	LGIM Passive UK Equity Index	0.13%	
Ethical Global Equity Fund	LGIM Ethical Global Equity Index	0.30%	
Shariah Compliant Global Equity Fund	HSBC Amanah Global Equity Index	0.35%	
Multi Asset Growth Fund	Schroder Dynamic Multi Asset Fund	0.37%	✓
Government Bond (Index Linked) Fund	LGIM Over 5 Yr Index-Linked Gilt Index	0.10%	✓
Corporate Bond Fund	LGIM Investment Grade Over 15 Year	0.15%	✓
Cash Fund	LGIM Cash Fund	0.13%	✓

There is no up-front administration charge to members for carrying out a switch between funds, however there may be implicit transaction costs incurred by switching.

It should also be re-emphasised that the Scheme is a Qualifying Workplace Pension Scheme for Auto Enrolment purposes. As such, the default lifestyle strategy is subject to the Statutory Charge Cap of 0.75% per annum, and remained well below this cap throughout the year.

Transaction Costs

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority (FCA) rules on disclosure for transaction costs in a standard form came into effect for investment managers on 3 January 2018.

The transaction costs shown below are calculated using the standardised method set by the FCA. As defined by the FCA, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in profit, known as 'negative costs'. This can happen, for example

when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down – such as some negative publicity or a big sell order by someone else.

The transaction costs, as shown in the table below, have been calculated and provided by Legal and General Investment Management.

Scheme fund name	Underlying funds	Transaction Costs
Passive Global Equity Fund	LGIM World Equity Index LGIM RAFI 3000 Equity Index LGIM Minimum Volatility Index LGIM World Emerging Markets Equity Index	0.04%
Passive UK Equity Fund	LGIM Passive UK Equity Index	-0.02%
Ethical Global Equity Fund	LGIM Ethical Global Equity Index	0.00%
Shariah Compliant Global Equity Fund	HSBC Amanah Global Equity Index	0.03%
Multi Asset Growth Fund	Schroder Dynamic Multi Asset Fund	0.39%
Government Bond (Index Linked) Fund	LGIM Over 5 Yr Index-Linked Gilt Index	0.07%
Corporate Bond Fund	LGIM Investment Grade Over 15 Year	-0.10%
Cash Fund	LGIM Cash Fund	0.00%

In terms of the investment strategy, the costs in respect of the Lifestyle strategies can be summarised as follows:

Lifestyle strategies	Total Expense Ratio	Transaction Costs	Total Costs
Flexible Income Lifestyle Option	0.21% - 0.28%	0.04% - 0.09%	0.27% - 0.36%
Annuity Lifestyle Option	0.13% - 0.28%	-0.01% - 0.09%	0.11% - 0.36%

Cumulative effect of charges

The tables below illustrate the effect of the costs and charges at different ages on members’ projected retirement pots for a “Young” active member and a “Typical” active and deferred member invested in the default lifestyle strategy.

As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below. For comparison purposes, we show projected values if the example member were invested in a fund with a similar risk profile (the Multi-Asset Growth Fund) but which has a higher level of costs and charges and the Cash Fund which has a lower cost and charge level to the default strategy and with a lower risk profile (expected return).

Youngest Active Member

For the youngest member invested in the Default Lifestyle, the estimated impact of costs and charges on a member's accumulated fund value is shown in the table below. The amounts shown relate to a member aged 25, current fund value of £2,000, salary of £25,000, employer contributions as per the current age-related contribution structure plus a 3% matched additional voluntary contribution (which the majority of members utilise) and a Selected Retirement Age of 65.

Age	Cash Fund			Default Lifestyle			Multi-Asset Growth Fund		
	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)
25	2,000	2,000	0	2,000	2,000	0	2,000	2,000	0
30	17,380	17,320	60	20,110	19,940	170	19,310	18,950	360
35	31,730	31,530	200	42,040	41,340	700	38,840	37,420	1,420
40	47,520	47,090	430	71,320	69,570	1,750	63,500	60,150	3,350
45	62,260	61,520	740	106,780	103,260	3,520	91,310	84,940	6,370
50	78,410	77,280	1,130	152,430	146,140	6,290	125,310	114,540	10,770
55	93,480	91,910	1,570	202,290	191,980	10,310	163,660	146,820	16,840
60	109,940	107,860	2,080	249,570	234,320	15,250	209,550	184,590	24,960
65	125,300	122,650	2,650	289,340	269,190	20,150	261,310	225,790	35,520

Typical Active Member

For a typical active member invested in the Default Lifestyle, the estimated impact of costs and charges on members accumulated fund values is shown in the table below. The amounts shown relate to a member aged 44, current fund value of £75,000, salary of £80,000, employer contributions as per the current age-related contribution structure plus a 3% matched additional voluntary contribution (which the majority of members utilise) and a Selected Retirement Age of 65. These demographics are considered to reflect a typical active member based on the Scheme's current membership.

Age	Cash Fund			Default Lifestyle			Multi-Asset Growth Fund		
	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)
44	75,000	75,000	0	75,000	75,000	0	75,000	75,000	0
45	85,750	85,650	100	90,010	89,760	250	88,830	88,270	560
50	144,960	144,150	810	183,020	180,540	2,480	171,580	166,400	5,180
55	200,230	198,420	1,810	288,240	281,360	6,880	264,920	251,600	13,320
60	259,470	256,370	3,100	399,380	385,830	13,550	378,620	352,760	25,860
65	314,770	310,130	4,640	501,570	480,400	21,170	506,880	463,060	43,820

Typical Deferred Member

For a deferred member invested in the Default Lifestyle, the estimated impact of charges on accumulated fund values is shown in the table and chart below. The amounts shown relate to a member aged 45, current fund value of £54,000, no ongoing contributions and a Selected Retirement Age of 65, which reflects a typical deferred member based on the Scheme's current membership.

Age	Cash Fund			Default Lifestyle			Multi-Asset Growth Fund		
	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)
45	54,000	54,000	0	54,000	54,000	0	54,000	54,000	0
50	50,410	50,090	320	65,390	64,420	970	60,910	58,880	2,030
55	47,060	46,470	590	77,050	74,710	2,340	68,710	64,210	4,500
60	43,930	43,100	830	85,660	81,670	3,990	77,510	70,010	7,500
65	41,010	39,980	1,030	91,050	85,490	5,560	87,440	76,340	11,100

Assumptions

The above illustrations have been produced for a "Typical" active and deferred member and a "Young" active member of the Scheme based on the Scheme's membership data. The illustrations assume the member's asset allocation remains fully invested in the current default strategy. The results are presented in real terms, i.e. in today's money and the values shown are estimated and are not guaranteed.

Age	
<ul style="list-style-type: none"> "Young" member "Typical" active member "Typical" deferred member 	25 44 45
Scheme Retirement Age (all)	65
Starting Pot Size	
<ul style="list-style-type: none"> "Young" member "Typical" active member "Typical" deferred member 	£2,000 £75,000 £54,000
Current Salary	
<ul style="list-style-type: none"> "Young" member "Typical" active member "Typical" deferred member 	£25,000 £80,000 n/a
Inflation	2.5% p.a.
Real Salary growth	0.0% p.a.

Employer annual contributions (for Typical Active and Young member)	In line with age-related structure plus 3% p.a. matching contribution	
Employee annual contributions (for Typical Active and Young member)	3% p.a.	
Expected future returns on investment:		
<ul style="list-style-type: none"> • Default Strategy <ul style="list-style-type: none"> ○ Passive Global Equity Fund ○ Multi-Asset Growth Fund ○ Corporate Bond Fund ○ Government Bond (Index Linked) Fund ○ Cash Fund 	6.5% p.a.	
	5.0% p.a.	
	0.9% p.a.	
	0.3% p.a.	
	1.1% p.a.	
Transaction Costs:		
Based on an average of transaction costs over the last two years, as available from LGIM		
<ul style="list-style-type: none"> ○ Passive Global Equity Fund ○ Multi-Asset Growth Fund ○ Corporate Bond Fund ○ Government Bond (Index Linked) Fund ○ Cash Fund 	TER	Average Transaction Cost
	0.28%	0.04%
	0.37%	0.34%
	0.15%	0.00%
	0.10%	0.06%
	0.13%	0.00%
In addition, a floor of 0% p.a. has been used for transaction costs if these values were negative in any year so as not to potentially understate the effect of charges on fund values. For the current period, this only affected the Corporate Bond Fund.		

Value for Members

On 12 June 2020, the Trustees carried out a detailed assessment of the extent to which the charges and transaction costs set out above represent good value for members. In making this assessment the Trustees have adopted the same "Value for Members" framework as used in the 31 December 2018 year end statement. This framework identifies a need to focus on **Costs; Quality; Risk; and Relevance**. Below are the framework scores, along with the 2018 scores as a comparison:

	31 December 2019	31 December 2018
COSTS	92%	92%
QUALITY	74%	74%
RISKS	80%	80%
RELEVANCE	76%	80%
TOTAL VFM SCORE	80.5%	81.5%

Since 31 December 2018, the Value for Members rating has fallen slightly mainly due to the delays experienced in implementing the BenPal platform. The Trustees will continue to monitor the implementation of BenPal, the need for greater member communication using the BenPal platform, as well as review Value For Members as part of the investment strategy review in 2020.

In analysing the value for members of the Scheme's investment options the Trustees acknowledge the following:

- value is more than just cost;
- assessing Quality needs to consider all elements that can materially impact member outcomes;
- assessing Relevance needs to consider the needs of the member base and to the extent to which these are reflected in any member feedback;
- assessing Cost is primarily a relative assessment, with research and judgement required to assess what are equivalent parameters to use;
- value for members is forward looking and can change over time;
- value for members is primarily concerned with anticipated outcomes at retirement;
- cross-subsidies inevitably exist and
- members' interests include the stability and ongoing existence of the provider.

The Trustees carried out an Annual Investment Review with the assistance of Aon in November 2019 and concluded that the fund charges were within the expected range. The Trustees have a good understanding of the membership demographics of the Scheme and as such have a view as to what good member outcomes should look like for the Scheme's members in aggregate. With this in mind, the Trustees have assessed the fees disclosed above and they are satisfied that they have negotiated a good deal for members and that the stated charges for the Scheme's funds represent good value for members. This is in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile. Aon will, however, continue to discuss any scope for fee discounts with Legal & General.

In conclusion, the Trustees are of the opinion that the Scheme has provided, and has the capacity to continue to provide, good value for members. They will also consider Value for Members as part of the investment strategy review, which is due in 2020.

4. TRUSTEE KNOWLEDGE AND UNDERSTANDING - Reg 23(1)(d)

The requirements under sections 247 and 248 of the Pensions Act 2004 (requirement for knowledge and understanding – individual and corporate trustees) have been met during the Scheme year by a continuous process of relevant on-the-job training. The Trustee board is chaired by a knowledgeable and experienced professional independent trustee and all the trustees have successfully completed all relevant modules of the Pensions Regulator's Trustee Toolkit.

The Trustees reviewed the Statement of Investment Principles (SIP) for the DC section in July 2017 and took professional advice from Aon. In conjunction with Aon, the Trustees further reviewed the SIP during 2018 and again in September 2019 in order to include the latest investment regulations introduced by the Department for Work and Pensions. The SIP now takes into account all financially material considerations (including but not limited to Environmental, Social and Governance (ESG) factors). A copy of the updated document will be appended to the 31 December 2019 scheme accounts and is also publicly available on the Europe Arab Bank plc company website. The Trustees are also working with their advisers in respect of the latest requirements for the SIP as a result of the

Shareholder Rights Directive. As a result, the Trustees feel that they have a strong understanding of the DC Section SIP and will continue to monitor the compliance requirements.

The November 2019 Annual Investment Review covered, amongst other things, a review of the ongoing suitability of the existing fund range offered by the Scheme, member outcomes monitoring and a review of the Fund charges.

As a result of the Competition and Markets Authority (CMA) review of the investment consulting industry, the Trustees agreed investment consultant objectives with Aon in advance of the deadline of 10 December 2019. The Trustees will be reviewing Aon's performance against these objectives in 2020.

The Trustees maintain and regularly review their DC Governance checklist at Trustee meetings. This has helped to identify the need for a Trustees' Succession Plan, which was implemented in 2018. This includes an Induction Plan for new Trustees (of which there was one during the year).

A Governance Report and Business Plan is also maintained by the Trustees, which records all of the Trustees' policies and their Trustee Training Register, and this is reviewed at each Trustees' meeting. As part of this, the Trustees have developed a Trustee Training plan outlining relevant topics that they will be addressing in the year and who will be providing the training to them. The Trustees feel that they have a good working knowledge of the Trust Deed and Rules as a result of the policies that they have implemented and refer to this key document on a regular basis when discretionary cases arise. The Trustees also seek advice from their consultants and legal advisers where they feel the need for clarity on their interpretation of the Scheme Rules. The Trustees are currently receiving guidance from their legal advisers as part of a consolidation of the Trust Deed and Rules, and the first training session on this was carried out in November 2019, with a follow-up session for the new Trustee in May 2020. The consolidation exercise is due to be finalised in 2020.

The Trustees ensure that they have the knowledge and understanding by having 'Trustee Knowledge and Understanding' as an agenda item for every Trustees' meeting and, where any specific gaps in knowledge or understanding are identified, bespoke training is arranged to address this accordingly. The Trustees have received updates from their advisers at regular Trustees' meetings throughout the year on relevant topics. These include updates on investment markets, advice on investment strategy, transaction cost disclosure and SIP requirements, and current pension issues.

The professional trustee, Roger Mattingly (representing Ross Trustees Services Limited) is an Accredited Professional Trustee, as accredited by the Association of Professional Pension Trustees (the APPT). The professional trustee maintains a robust record of their Continuous Professional Development (CPD), which includes many events devoted to DC governance.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their duties and responsibilities as Trustees of the Scheme.

5. NON-AFFILIATION OF TRUSTEES AND MEMBER REPRESENTATION - Reg 26

The Scheme is not constrained by the requirements of regulation 27(2) of the Regulations for the majority of the Trustees to be non-affiliated as it is not a Master Trust but, as stated, the Board of the Trustees is chaired by a non-affiliated professional independent trustee.

The Trustees continue to encourage members of the Scheme to make their views on matters relating to the Scheme. A series of member presentations were carried out during 2017 to make sure, as far as is possible, that members have all the information they may require to make informed decisions, as necessary. It is also planned, with the assistance of the Employer, to carry out another round of member presentations in 2020, and this will be run alongside the introduction of an online benefits platform.

6. GOVERNANCE STATEMENT

As Trustees, we have reviewed and assessed our systems, processes and controls across key governance functions and we are satisfied that these are consistent with those set out in the Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits
- Regulatory guidance for defined contribution schemes

Based on our assessment we believe that we have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help demonstrate the robust administration processes and investment governance required to achieve good outcomes for members.

Adopted for and on behalf of the Trustees of the Europe Arab Bank Plc Pension Scheme by

Roger Mattingly, Ross Trustees Services Limited - Chairman of the Trustees

Date 24 July 2020